

INFORMED BUDGETEER

BLUE DOG DETAILS

HOUSE COALITION AGGREGATE BUDGET TOTALS							
(\$ in Billions)							
	1997	1998	1999	2000	2001	2002	Total
Discretionary:							
Defense	268	262	264	269	269	274	1,338
Non defense	281	277	279	278	278	280	1,392
Subtotal	549	538	542	547	547	554	2,730
Mandatory:							
Social Security	363	379	394	411	429	448	2,061
Medicare	209	220	233	247	257	278	1,234
Medicaid	99	104	111	117	125	134	592
Other Mandatory	156	178	192	206	207	219	1,002
Net Interest	248	252	255	250	242	236	1,234
Total Outlays	1,622	1,671	1,728	1,778	1,808	1,868	8,853
Revenues	1,510	1,602	1,702	1,815	1,917	2,031	9,067
Deficit/surplus	-113	-99	-85	-58	-6	19	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. SOURCE: SBC Majority Staff, based on details provided by House Coalition.

- The House “Blue Dogs” or “Coalition” under the direction of Congressmen Stenholm and Minge has prepared a budget proposal for FY 1998. The proposal -- based on the sponsors estimates -- if fully implemented is expected to reduce the federal deficit every year and result in a surplus of \$19 billion in the year 2002.
- The Coalition proposal makes an adjustment to the CPI -- an 0.8% reduction. This adjustment results in increased revenues of \$38 billion over five years and reduced COLA outlays of nearly \$66 billion -- \$44 billion in the Socail Security program.
- The proposal does not assume any tax reductions and in fact assumes increased revenues from taxation of SSI and food stamp benefits. The plan also achieves \$7 billion inincreased revenues over 5 years from corporate tax provisions.
- Medicare spending is reduced \$114 billion over the next five years. The Coalition includes the Home Health transfer and subjects these transfered amounts to the Part B premium. Medicaid savings of \$26 billion result from a per capita cap and freezing the disproportionate share payments to states.
- Non-defense discretionary outlays would remain flat -- essentially an outlay freeze at the 1997 level. Defense spending is gradually increased from \$268 billion in 1998 to \$274 billion in 2002.

HOUSE COALITION BUDGET							
(\$ in Billions)							
	1997	1998	1999	2000	2001	2002	Total
CBO baseline ^A	113	135	156	173	149	163	
Discretionary:							
Defense	--	-8	-13	-18	-20	-26	-85
Non defense	--	-11	-18	-26	-34	-41	-131
Mandatory:							
Social Security	--	-2	-5	-9	-12	-16	-44
Medicare	--	-7	-15	-26	-29	-36	-114
Medicaid	--	-1	-2	-5	-7	-10	-26
Other Mandatory	--	-0	-6	-11	-13	-15	-45
Revenues	--	-4	-8	-11	-14	-17	-53
Total changes	--	-35	-67	-106	-128	-160	-496
Debt Service	--	-1	-4	-9	-15	-22	-51
Deficit reduction	--	-36	-71	-114	-143	-183	-547
Deficit/surplus	113	99	85	58	6	-19	

^ACBO uncapped baseline deficit. Baseline includes fiscal dividend and assumes discretionary spending increases at the rate of inflation.
NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis.
SOURCE: SBC Majority Staff, based on details provided by House Coalition.

CAPITAL BUDGETING: ROUND TWO

- The *Bulletin* recently touched on the flaws of capital budgeting. The *Bulletin* is back to raise questions about capital budgeting both on economic and accounting grounds.
- On economics, proponents argue that borrowing for *productive* public investment is sustainable because the investment will raise economic growth. Most economists, however, recognize that federal borrowing “crowds out” private investment by raising interest rates.
- Accordingly, if the government borrows to fund public investment, net national investment will change little (and if the rate of return on the public investment is less than the private investment crowded out, growth will actually slow). On the other hand, if the government pays for productive public investment by reducing government consumption, it will raise net national investment overall.
- On accounting issues, proponents argue that private companies do not expense all their assets during the first year of purchase. While it is true that Generally Accepted Accounting Principles allow companies to capitalize investments, they also require firms to record all of their liabilities.
- According to the *1995 Consolidated Financial Statements of the United States Government* (the latest accrual-based statements produced by the Treasury Department), the accrual-basis deficit was \$309 billion in FY 1995, compared to a cash-basis deficit of only \$164 billion. This disparity would be much larger except that the increase in the unfunded liabilities of Social Security and Medicare were excluded from the calculation because the Treasury does not view them as firm commitments!
- Finally, the Clinton Administration recently produced two sample capital budgets in their FY 1998 Budget: one with a strict definition of physical capital owned by the federal government and one with a very broad definition of investment which included federal investment in research and development, education, training, and infrastructure *not owned* by the federal government.
- Under the strict definition, the operating deficit for FY 1998 would actually be \$39 billion higher than the cash-basis deficit because of depreciation costs! Even under the broad definition, the operating deficit would be only \$12 billion lower.

CBO VS. OMB
ACCURACY OF FORECASTS

- The Administration has touted OMB’s forecasting record so much, we decided to take a closer look at these claims. We found that it is CBO, not OMB, which has had the superior forecasting performance over the past four years.
- Since the start of 1993, there have been 20 deficit projections made for FY 1993-1996. These were made at the start of the year and at the mid-session review. (There have been more than one forecast for each year). CBO was more accurate than OMB in predicting deficit size in 16 out of the 20 times.
- Certainly, these forecasts were volatile and CBO did not always get them exactly correct. However, the point is that they did better than OMB did.
- CBO was also strong in its economic forecasts over this period. CBO was generally more accurate than OMB in forecasting nominal GDP growth, long-term interest rates, and CPI. OMB was somewhat better in its income share predictions.
- However, it is important to make one key point. The administration seems to believe that economic forecasting supremacy can be decided over a four year period. Yet, it is inappropriate to base

judgement on economic forecast accuracy over such a short span.

- Since OMB tends to have rosier economic numbers, they should be less accurate during times of economic slowdown or recession. Thus, to really evaluate which shop is better, the forecast period should span all phases of the business cycle.
- Such long-term studies show CBO’s strength. In its August 1996 report, CBO found that its economic forecasts were more accurate than OMB’s during the period of 1976-1994. An independent 1995 study by a researcher at the Federal Reserve Bank of New England came to similar conclusions.
- **Furthermore, Blue Chip recently endorsed CBO economic forecasts for the current budget window.** In their most recent, March report -- they said that **“Blue Chip consensus forecasts, particularly for inflation and interest rates, more closely conform with the less optimistic estimates of the CBO than those the Clinton administration employed in its fiscal year 1998 budget”**.
- This is a greater testament to CBO’s forecasting than even its impressive track record.

COMPARISON OF DEFICIT PROJECTIONS FY 1993- FY 1996; Winter/Spring Forecasts (Current Services, Capped Baseline Estimates, \$ in Billions)				
	1993	1994	1995	1996
CBO-March 1993	302	287	284	290
OMB- April 1993	310	297	283	279
<i>Actual</i>	255	203	164	107
CBO-January 1994		223	171	166
OMB-February 1994		235	177	178
<i>Actual</i>		203	164	107
CBO-January 1995			176	207
OMB-February 1995			189	201
<i>Actual</i>			164	107
CBO-April 1996				144
OMB- March 1996				154
<i>Actual</i>				107

NOTE: Bold indicates more accurate. Actuals in italics.

COMPARISON OF DEFICIT PROJECTIONS FY 1993- FY 1996; Mid-Session Forecasts (Current Services, Capped Baseline Estimates, \$ in Billions)				
	1993	1994	1995	1996
CBO- September 1993	266	253	196	190
OMB- September 1993	281	259	207	193
<i>Actual</i>	255	203	164	107
CBO-August 1994		202	162	176
OMB-July 1994		220	168	184
<i>Actual</i>		203	164	107
CBO-August 1995			161	189
OMB-July 1995			160	185
<i>Actual</i>			164	107
CBO-August 1996				116
OMB-July 1996				117
<i>Actual</i>				107

NOTE: Bold indicates more accurate. Actuals in italics.

QUESTION: With all the recent attention to the April 15th deadline, how often has Congress completed a budget resolution by the statutory deadline?

ANSWER: Three; 1975, 1976, and 1994.

BONUS QUESTION: How many times since 1976 has Congress completed a budget resolution by April 15?

ANSWER: Once. From Fiscal year 1976 through fiscal Year 1986, May 15 was the deadline for the adoption of a budget resolution. The enactment of Gramm-Rudman-Hollings in Fiscal year 1987 changed the deadline date to April 15.

Completion Dates of Budget Resolutions (FY 1976-1997)	
Fiscal Year	Date Budget Resolution Adopted
1976	May 14, 1975 (H. Con. Res. 218)
1977	May 13, 1976 (S. Con. Res. 109)
1978	May 17, 1977 (S. Con. Res. 19)
1979	May 17, 1978 (S. Con. Res. 80)
1980	May 24, 1979 (H. Con. Res. 107)
1981	June 12, 1980 (H. Con. Res. 307)
1982	May 21, 1981 (H. Con. Res. 115)
1983	June 23, 1982 (S. Con. Res. 92)
1984	June 23, 1983 (H. Con. Res. 91)
1985	October 1, 1984 (H. Con. Res. 280)
1986	August 1, 1985 (H. Con. Res. 32)
1987*	May 15, 1986 (H. Con. Res. 337)
1988	June 25, 1987 (H. Con. Res. 93)
1989	June 6, 1988 (H. Con. Res. 268)
1990	May 18, 1989 (H. Con. Res. 106)
1991	October 9, 1990 (H. Con. Res. 310)
1992	May 22, 1991 (H. Con. Res. 121)
1993	May 21, 1992 (H. Con. Res. 287)
1994	April 1, 1993 (H. Con. Res. 64)
1995	May 12, 1994 (H. Con. Res. 218)
1996	June 29, 1995 (H. Con. Res. 67)
1997	June 13, 1996 (H. Con. Res.178)
*First year, under Gramm-Rudman-Hollings, statutory deadline was April 15. Until 1987, the deadline was May 15.	

CALENDAR

March 19, 1997: Senate Budget Committee Meeting-- Fiscal Year 1998 Budget in Dirksen 608; 9:30-11:30 am.

✉ EDITOR’S NOTE: The table, “Racial & Ethnic Composition by Age”, which appeared in the *Bulletin* last week, was produced by the Committee for a Responsible Federal Budget, based on recently released Department of Commerce and Census Bureau data. The table was part of a report by the CRFB “Building a Better Future: The graying of America Project: Part 1”, February 1997.

A St. Patrick’s Day Task

This week the Senate Budget Committee staff (informed budgeteers are invited to join us) will be searching for leprechauns. The Irish tale goes if you catch a leprechaun, he’ll give you a pot of gold. Perhaps this will be the answer to our budget problems, or at least relieve us of a “trigger”. Happy St. Patrick’s Day to the SBC staff and informed budgeteers everywhere.

BUDGET QUIZ